

ITEM FOR FINANCE COMMITTEE

HEAD 190 – UNIVERSITY GRANTS COMMITTEE

Subhead 700 General non-recurrent

New Item “Second matching grant scheme for UGC-funded institutions”

Members are invited to approve a new commitment of \$1,000 million for awarding grants to University Grants Committee-funded institutions to match private donations they secured.

PROBLEM

We need to further diversify the funding sources for higher education in Hong Kong.

PROPOSAL

2. The Secretary for Education and Manpower proposes to further strengthen the fund-raising capabilities of the University Grants Committee (UGC)-funded institutions by implementing the Second Matching Grant Scheme to award grants of up to \$1,000 million in total to match private donations they secured.

JUSTIFICATION

The need for matching grants

First Matching Grant Scheme

3. In November 2002, the Government accepted the UGC’s recommendation in the Higher Education Review that the funding sources for higher education should be diversified by strengthening the fund-raising capabilities of institutions. The institutions would then be in a better position to fulfil their strategic roles and compete at the international level.

4. The Financial Secretary announced the First Matching Grant Scheme in his 2003-04 Budget Speech in March 2003. We obtained the approval of the Finance Committee (FC) in June 2003 vide FCR(2003-04)22 to create a commitment of \$1,000 million, to introduce a Matching Grant Scheme for UGC-funded institutions which had succeeded in securing private donations for activities within the ambit of UGC recurrent grants.

5. At the close of the First Matching Grant Scheme in June 2004, the eight UGC-funded institutions together had secured nearly \$1,300 million in donations, which was matched by Government's \$1,000 million in grants. In other words, the Scheme had helped the institutions obtain additional resources totaling \$2,300 million within 16 months.

Second Matching Grant Scheme

6. In view of the very encouraging response to the First Matching Grant Scheme, we see merit in further supporting the institutions' endeavours and community investment in this direction. We therefore propose to allocate a further \$1,000 million to introduce a Second Matching Grant Scheme.

Implementation of the Second Matching Grant Scheme

7. Since the First Matching Grant Scheme proceeded very well, the UGC will adopt the same basic principles for the new round, with the following relaxations –

- (a) the matching grants can be used to offer scholarships for meritorious non-local students; and
- (b) donations for the construction of buildings on campus can be matched, provided that the matching grants are used on activities within the ambit of UGC recurrent grants or scholarships.

The above relaxations are to facilitate two significant developments in the higher education sector, namely internationalisation and the campus development of the institutions, having regard to their long-term plans which go beyond the basic requirements in support of the new academic structure for senior secondary and higher education (i.e. the "3+3+4" academic structure).

Scholarships for internationalisation

8. As Hong Kong aspires to be the Education Hub of the region, internationalisation of the student body in the higher education sector is essential. Having more non-local students in our institutions will bring educational, cultural and economic benefits to Hong Kong. Apart from increasing our ethnic and cultural diversity, the presence of non-local students also helps broaden the perspectives of local students and stimulates healthy competition.

9. Hong Kong has the potential and the right conditions to attract non-local students, but our relatively high cost of living as compared to that of neighbouring regions has undermined our competitiveness in the quest for talent. Experience in countries such as New Zealand, Singapore, the United Kingdom and the United States has shown that providing scholarships is an effective means to attract high calibre students. By extending the scope of the matching grant to cover scholarships for non-local students, which are not within the ambit of UGC recurrent grants, institutions will be better placed to tap private funds which can support and sustain scholarship offers in future. All scholarships to be provided under the matching grants will be offered by the institutions to the students direct and administered by the institutions.

Capital works projects

10. The Government is ready to implement the “3+3+4” academic structure. While we have undertaken to support capital works projects essential for the UGC-funded institutions to deliver a new four-year undergraduate curriculum, the resources available may not be sufficient to meet in full the aspirations of the institutions in respect of their campus development. The institutions have, rightly, taken the opportunity of the academic reform to revisit their long-term visions and review the physical infrastructure they need to support future developments. For instance, they may wish to have additional hostel places to provide a more all-round education for local students and to accommodate exchange students; they may require additional research facilities, student amenities, and other facilities which enhance the teaching and learning environment but may be over and above what the Government could reasonably be expected to provide in the near future. By relaxing the matching rules so that private donations for capital works projects are counted for the purpose of matching, we can provide incentives for institutions to tap into private funding for these purposes.

11. We do not propose, however, that additional government resources under the proposed Scheme should be drawn towards campus development. To maintain a healthy balance between capital works and other investments, we propose that while donations for capital works can be matched by government grants, the matching grants from the Government may only be used on activities within the ambit of UGC recurrent grants or scholarships.

Operating Terms and Conditions

12. UGC will administer the proposed Second Matching Grant Scheme which will operate under essentially the same basic terms and conditions of the First Matching Grant Scheme as approved by the FC in June 2003. The broad operating principles are as follows –

- (a) only new donations paid to UGC-funded institutions after a specified Effective Date (say 1 August 2005 if funding approval is obtained before then) are eligible for matching grants;
- (b) the Scheme should encourage healthy competition among institutions and give the smaller or younger institutions a fair chance of securing grants. To this end –
 - (i) the UGC will set aside an amount of \$45 million (i.e. “floor”) for matching by each institution as a guaranteed minimum in the first six months after the Scheme is open for application. Any request by the institutions over and above this amount will be considered on a first-come-first-served basis;
 - (ii) by the end of the six-month period, funding under the guaranteed minimum which has yet to be matched by the concerned institutions will be opened up for application by all institutions on a first-come-first-served basis; and
 - (iii) apart from the “floor” in (i) above, there will be an upper limit (i.e. a “ceiling”) of \$250m applicable to the aggregate amount received by each institution under the Scheme;
- (c) the matching should be \$1 for \$1 up to the “floor”, beyond which a \$1 for \$2 matching is proposed i.e. \$1 government grant for every \$2 donation secured. The matching ratio of \$1 for \$1 up to the “floor” is to help those smaller or younger institutions with less fund-raising capabilities to secure a reasonable share of matching grant. We propose \$1 for \$2 matching for the level beyond the “floor” in order to maximise the amount of private donations to be solicited;

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- (d) subject to the limits in (b) and (c) above, all requests for matching funds will be considered on a first-come-first-served basis. All uncommitted funds after the end of the first six months will be carried over to the final month for matching. The Scheme will finish at the end of February 2006, so that all funds can be disbursed by the close of the financial year (31 March 2006);
- (e) the fact that an institution has secured a matching grant for a project does not commit the Administration to providing recurrent grants or further matching grants to the institution for the project on a recurrent basis. Any recurrent consequences of all projects undertaken by institutions with funding secured under this Scheme will have to be met by the institutions from available resources;
- (f) private donations for activities within the ambit of UGC recurrent grants, scholarships and capital works can be matched by government grants, although the matching grants may only be used on the former two categories. Neither the grants nor the donations they match can be used for self-financing activities;
- (g) the matching grants received by an institution and any investment income arising from the grants are additional to Government's recurrent subsidy to institutions;
- (h) to ensure fairness in the matching process, there will be no "double matching" or "double subsidies". In other words, donations from various public/government funds (e.g. projects sponsored by the Quality Education Fund and the Innovation and Technology Fund), those from the Hong Kong Jockey Club, and donations already matched with public funds under other matching schemes will not be eligible for any matching grants under the proposed Scheme;
- (i) the institutions may retain any unspent matching grants across the triennium, in addition to the reserve accumulated from their recurrent grants; and
- (j) to ensure the accountability and transparency of the operation of the proposed Scheme –
 - (i) UGC should coordinate the institutions' disclosure of donations and the intended use of both the private donations and the matching grants received. Institutions should also disclose publicly in their annual accounts the amount and purpose of any private donations received which are matched by the matching grants;

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- (ii) the use of matching grants and the donations matched will be subject to audit assurance; auditors will need to confirm to the UGC that the conditions of the grants have been met; and
- (iii) the institutions will need to ensure the cost-effectiveness of the matching grants to be spent.

Implementation Timetable

13. Subject to Members' approval, the Scheme will be open for application from 1 August 2005 and will last for seven months up to 28 February 2006.

FINANCIAL IMPLICATIONS

14. The Government has earmarked sufficient funds in the 2005-06 Estimates for the Second Matching Grant Scheme. The proposal has no recurrent financial implications for the Government.

BACKGROUND INFORMATION

15. The UGC-funded institutions support the matching grant proposal and the underlying notion of diversifying the funding source for higher education in Hong Kong.

16. [The Legislative Council Panel on Education was consulted on 20 June 2005](#) and supported the proposal. Members suggested that the Administration should consider providing matching grants to UGC-funded institutions on a recurrent basis, and raising the ceiling for tax-exempted donations to encourage more private donations. To give the institutions sufficient time to secure donations, Members also suggested that the Administration should extend the duration of the proposed Scheme, and allow unspent funds to be carried forward and disbursed beyond the 2005-06 financial year. We also noted that the proposed requirement for donations to be "pledged and paid" after the Effective Date seemed unclear to some Members, and have therefore improved the expression to enhance objectivity and transparency.